



Whatever Happened to the American Jobs Machine?

BY JOHN SCHMITT

In the 1990s, the United States developed an international reputation as a "jobs machine" capable of creating jobs at a far faster rate than the European Union. Remarkably, however, in the current decade, the United States has been creating jobs at a slower pace than the European Union.

To an important degree, the characterization of the United States as a jobs machine in the 1990s was correct, especially during the second half of the decade, when the U.S. economy was booming. As Figure 1 demonstrates, between 1990 and 2000, for example, total job growth averaged 1.4 percent per year in the United States, compared to only 0.4 percent per year in the European Union.¹

The relative success of the United States led many economists, policymakers, and commentators to urge European economies to adopt more "flexible" U.S.-style labor markets. Most European economies did undertake some reforms, but, in general, the reforms that even conservative governments were willing and able to implement have fallen well short of the comprehensive liberalization of labor markets that many advocates of U.S.-style reforms sought.²

In the 2000s, the United States continues to be an important reference point for proponents of greater labor-market flexibility in Europe.³ Over the current decade, however, the United States has actually fallen behind the European Union when it comes to job creation. As Figure 2 shows, between 2000 and 2005, employment grew at a 0.7 percent annual rate in the United States --below the 0.9 percent rate for the European Union (EU-15) as a whole. Since 2000, Spain (4.0 percent), Ireland (2.9 percent), Greece (1.3 percent), and Italy (1.2 percent) all have managed to create jobs at a faster rate than the United States. The United Kingdom (0.7) and

**Center for Economic and
Policy Research**
1611 Connecticut Ave, NW
Suite 400
Washington, DC 20009
202-293-5380
www.cepr.net

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1 See Table 1 for source and details. The European Union refers here to the first 15 countries of the European Union (see Figures 1 and 2 for a complete list).

2 For an overview of policy reforms in OECD countries since the mid-1990s, see OECD (2006b), Chapters 2, 3, and 4.

3 See, for example, IMF (2003), Chapter 4.

Belgium (0.7) have matched U.S. job growth rates. And France (0.5), Finland (0.5), and Sweden (0.5) have trailed fairly closely behind the United States.

FIGURE 1

Average annual growth rate of civilian employment, 1990-2000 (percent)

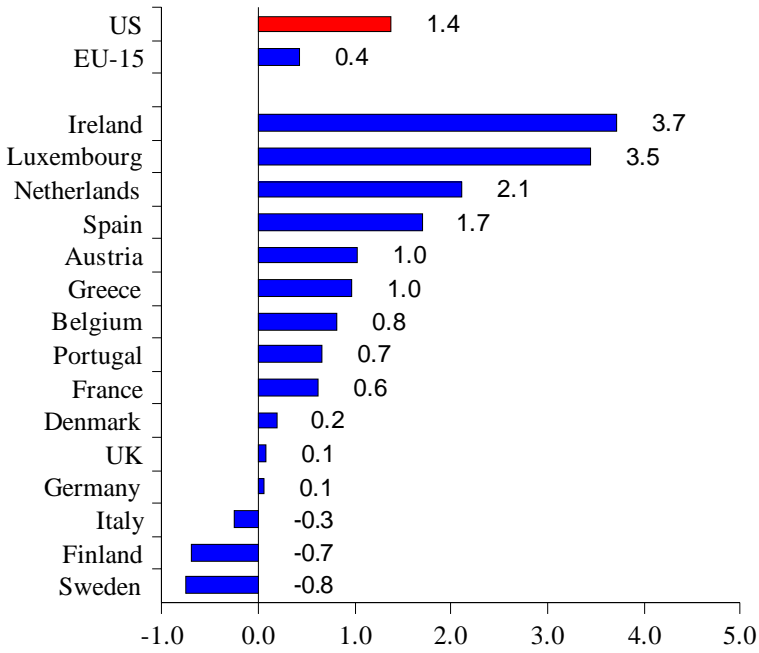
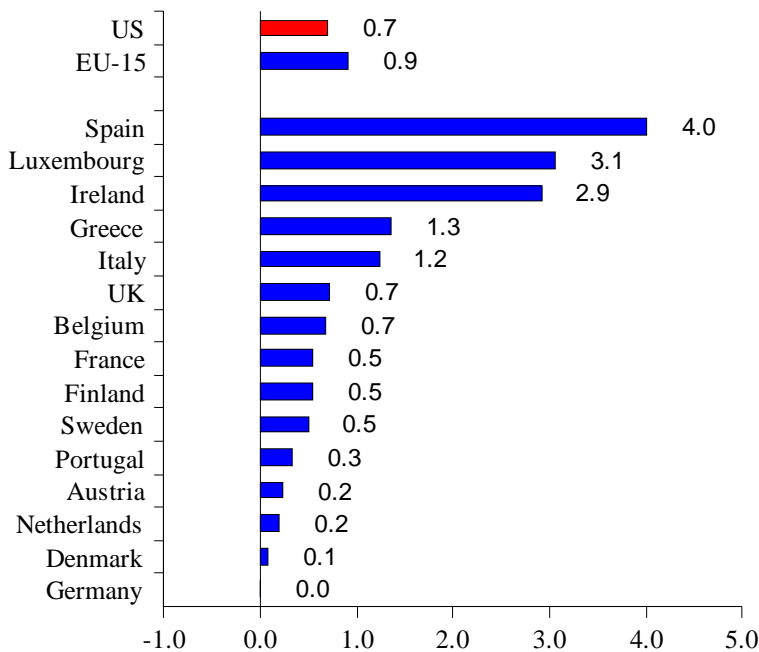


FIGURE 2

Average annual growth rate of civilian employment, 2000-2005 (percent)



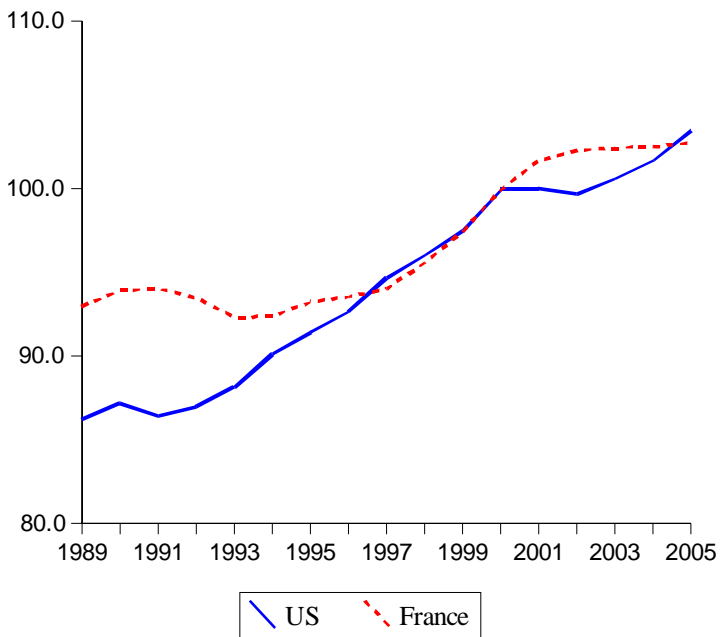
Source: Author's analysis of OECD Data.

A comparison with France can help to put the magnitude of the decline in U.S. performance into some perspective. Figure 3 compares annual changes in employment in France and the United States from 1989 (a business cycle peak in the U.S. labor market) through 2005. To facilitate the comparison, the employment level in each country in the year 2000 has been set equal to 100. The graph illustrates several interesting features about job creation in the two economies. First, over the full decade of the 1990s (from 1989 through 2000), job growth was, indeed, much faster in the United States than it was in France. Second, in France, after a period of stagnant and even declining job levels from 1989 through 1997, job growth accelerated rapidly through 2001. As the graph indicates, the rate of job creation in France between 1997 and 2001 matched the pace set during the late 1990s boom in the United States. Third, between 2000 and 2004, France noticeably outperformed the United States. The United States did not move ahead of France until 2005. Even by 2005, however, the difference in job creation between the two countries was small: employment in France in 2005 was 2.8 percent higher than it was in 2000; employment in the United States in 2005 was only 3.5 percent higher than it had been in 2000.

FIGURE 3

Employment growth in France and the United States, 1989-2005

(Employment level in each country in 2000 equals 100.0)



Source: Author's analysis of OECD Data.

The labor market in the United States showed important signs of improvement between 2004 and 2005, with an increase in total employment of about 1.8 percent.⁴ Available data from the Bureau of Labor Statistics for 2006 show that the United States is continuing to create jobs this year, but at a slower pace than achieved in 2005. According to data from the Current Population Survey (the CPS, the source of the OECD's employment figures for the United States), total employment increased

⁴ Underlying household-survey data, as in Table 1; 2004 to 2005 change not shown in the table, but available upon request.

by just under 1.1 percent between January and August, which puts the United States on course for creating about 1.6 percent additional jobs by December.⁵

Data

Table 1 present data from the Organization for Economic Cooperation and Development (OECD) on total employment in OECD member countries in 1990, 2000, and 2005. The underlying data are generally from national labor force surveys compiled and placed on a comparable basis by the OECD.⁶

Several features of the data are worth mentioning. First, the data for Germany refer to unified Germany. The underlying OECD data for 1990 do not include the former East Germany, but Table 1 reflects an adjustment for East German employment, based on published data from the Groningen Growth and Development Center.

Second, the employment growth rates are the geometric mean growth rate over the two periods. The first period 1990-2000 corresponds roughly with two business-cycle peaks in the United States. The second period, 2000-2005, is the incomplete current business cycle in the United States. Economic cycles varied somewhat across the European Union countries, but, in general, the cyclical peak in European countries in both the early 1990s and the early 2000s, occurred after the U.S. peak.

Finally, for the United States, the OECD uses data from the CPS, a monthly household survey data. In the U.S. context, the Current Employment Statistics (CES) survey, a much larger monthly survey of employers, is a better source of estimates for overall employment growth. Unfortunately, comparable employer-based data are not available for most other OECD countries. The employer-based data from the CES reinforce the conclusion that the United States jobs machine is ailing. Between 1990 and 2000, the employer-based data suggest that the U.S. economy was creating jobs at a 1.9 percent annual rate, substantially faster than the 1.4 percent rate implied by the household-based data from the CPS in Table 1 and Figure 1. Between 2000 and 2005, the employer-based data suggested that job growth had decelerated sharply in the United States --to just 0.3 percent per year-- even lower than the 0.7 percent rate based on the household-survey data in Table 1 and Figure 2.

⁵ The Current Employment Statistics survey, a monthly establishment survey that is a more reliable measure of job creation than the household survey, puts total job growth between January and August at only 0.7 percent.

⁶ OECD (2006b), pp. 18-19. Across countries, the data correspond to the same employment concepts. Within countries, however, changes in specific aspects of national labor-market surveys mean that the data are not completely consistent over time.

TABLE 1
Total employment, 1990-2005
 (thousands)

	1990	2000	2005	Annual average percent change	
				1990-2000	2000-2005
United States	120,433	138,115	142,974	1.4	0.7
EU-15	153,831	160,597	168,098	0.4	0.9
Austria	3,412	3,779	3,824	1.0	0.2
Belgium	3,815	4,136	4,278	0.8	0.7
Denmark	2,672	2,722	2,732	0.2	0.1
Finland	2,525	2,356	2,421	-0.7	0.5
France	22,625	24,089	24,758	0.6	0.5
Germany	36,273	36,467	36,465	0.1	0.0
Greece	3,719	4,098	4,382	1.0	1.3
Ireland	1,160	1,671	1,929	3.7	2.9
Italy	21,764	21,225	22,562	-0.3	1.2
Luxembourg	188	264	307	3.5	3.1
Netherlands	6,356	7,835	7,914	2.1	0.2
Portugal	4,723	5,041	5,123	0.7	0.3
Spain	13,179	15,590	18,975	1.7	4.0
Sweden	4,485	4,159	4,263	-0.8	0.5
United Kingdom	26,935	27,166	28,165	0.1	0.7
Iceland	126	156	161	2.2	0.6
Norway	2,030	2,269	2,289	1.1	0.2
Switzerland	3,821	4,089	4,183	0.7	0.5
Turkey	19,038	22,081	22,546	1.5	0.4
Czech Rep.	4,995	4,732	4,764	-0.5	0.1
Hungary	--	3,856	3,901	--	0.2
Poland	16,280	14,620	14,173	-1.1	-0.6
Slovak Rep.	--	2,123	2,218	--	0.9
Canada	13,165	14,821	16,229	1.2	1.8
Mexico	23,403	38,275	40,978	5.0	1.4
Australia	7,927	9,040	10,038	1.3	2.1
Japan	62,490	64,460	63,560	0.3	-0.3
Korea	18,085	21,156	22,856	1.6	1.6
New Zealand	1,555	1,818	2,082	1.6	2.7

Notes: OECD, *Labour Force Statistics 1985-2005*, Paris: OECD, 2006, pp. 18-19. Figure for Germany for 1990 multiplied by 1.237 to reflect inclusion of East Germany, based on data from the Groningen Growth and Development Centre, <http://www.ggdc.net/index-dseries.html>; East Germany included in 1990 data for EU-15 for comparability over time.

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